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The Department of Employee Trust Funds (ETF) has received numerous inquiries about the state 2009-2011 Budget Repair Bill (2011 Special Session Senate Bill 11) and the impact of the bill on the public employee benefit programs administered by ETF.

We are currently experiencing high service demands. As a result, the wait times for our services have increased. Your time is valuable; therefore, please review the following answers to frequently asked questions about the bill before contacting ETF.

The new questions and revised questions are marked below.

Questions about Collective Bargaining

1) Who determines the benefit levels of the Wisconsin Retirement System (WRS) and other fringe benefit programs for public employees?

- ETF does not determine the benefit levels for the WRS and other fringe benefit programs administered by ETF. ETF's role is to administer the benefits as determined by the Governor and Legislature.

2) Who determines how much public employees pay for their WRS contributions and health insurance premiums?

- ETF does not play a role in determining who pays the employee portion of the contributions to the WRS. In addition, ETF does not determine how much employees contribute toward health insurance premiums. Under current law, those decisions are determined through the bargaining process for represented employees and compensation plans for non-represented employees.
- ETF does not have a role in the laws that govern the collective bargaining process.

Board	Mtg Date	Item #
JI	3.10.11	5A

Questions about the Wisconsin Retirement System (WRS)

3) Does the bill change the retirement benefits of retired members of the WRS?

- No.

4) Under the state Budget Repair Bill, will my contribution to WRS change?

- Yes, **most** public employees will be required to pay an increased percentage of earnings; usually one-half of the WRS required contributions. Note that this employee-required percentage may change each year when the required WRS contribution rate is adjusted.

5) What percent of the required contribution to the WRS will I pay this year under the state Budget Repair Bill?

- For general employees, this year's total contribution rate to the WRS is set at 11.6%; therefore, one-half of the total WRS contribution rate for most employees is 5.8%. The total WRS contribution rate for general employees varies each year depending on WRS investment returns and actuarial adjustments, so 5.8% will not necessarily continue each year. For more information about how contribution rates are determined, visit: http://www.etf.wi.gov/news/2011_Contribution_Rate_FAQ.pdf

6) Under the state Budget Repair Bill, when will I be required to make this additional contribution to my WRS account?

- Unless you currently have a contract in place with your employer, this change will be effective the first day of the first pay period after March 13, 2011.

7) Will the various WRS employee categories be affected by these provisions in the state Budget Repair Bill?

- Yes. There are four employee categories in the WRS. The employee categories each have a different contribution rate because the benefit levels (as defined in state law) vary from group to group. Here is the bill language related to each employee category and contributions to WRS accounts:
  - General Employees: ½ of total WRS contribution
    - For example, the 2011 total WRS contribution for general employees is 11.6% of salary. Therefore, under the current bill language, general employees will contribute 5.8% of his/her salary to his/her WRS account.
    - Elected and Executive Employees: ½ of total WRS contribution. Therefore, under the current bill language, each elected and executive employees will contribute 6.65% of his/her salary to his/her WRS account.
    - Protectives with Social Security (typically police officers): same percentage as general employees.

- Protectives without Social Security (typically firefighters): same percentage as general employees.

8) Are employee contributions to the Wisconsin Retirement System considered "pre-tax" or "post-tax" contributions?

- "Post-tax." Under federal tax law (Section 414(h)(2) of the Internal Revenue Code), *employer contributions* to public retirement funds are not subject to FICA and federal income taxation (therefore, they are considered pre-tax). *Employee contributions*, on the other hand, are generally taxed normally (therefore, they are considered post-tax).
- Special note: Your contributions will not be subject to "double taxation." Your contribution will not be taxed when you also collect your annuity.

9) 2011 Special Session Senate Bill 11 (the state Budget Repair Bill) has a provision that requires most public employees to pay half of the WRS required contributions. When public employees start paying 5.8% of their earnings into the WRS in 2011, do all of these contributions go into their individual accounts?

- Yes, the entire 5.8% will be "employee required contributions." This means that the entire 5.8% will be credited to the employee's account, and the employee will have vested rights to those contributions. For most public employees this will have the effect of increasing the amount payable as a separation benefit, the amount used to calculate "money purchase" retirement benefits, and the death benefits payable when a public employee dies before taking a retirement benefit. Since these contributions are actually being paid by employees from post-tax dollars, it will also increase the non-taxable portion of any benefits paid from their accounts.

10) General category state employees currently contribute 0.2% of earnings to their WRS account, which is applied to the "benefit adjustment contribution" portion of the WRS contribution rate. What happens to the 0.2% of earnings currently being paid as "benefit adjustment contributions?"

- Currently **state** general category employees are paying 0.2% of their earnings to the WRS as "benefit adjustment contributions." These benefit adjustment contributions are **not** credited to the employees' accounts; therefore they do not increase the WRS benefits payable from their accounts. The bill eliminates the benefit adjustment contributions, so all employee contributions would actually be credited to the employees' accounts.

11) Will the retirement formula used by ETF to calculate retirement benefits change for some employee categories?

- Yes, for some. The only category of employees changing under the bill is the "executive/elected" category. This category generally includes members of the legislature, unclassified executives and other elected officials. This group currently has a formula factor of 2%. Under the bill, the factor will be reduced to 1.6%, consistent with general category employees. There are currently no changes to the formula factor for protective or general category employees in the bill.

12) Can public employees who work for a WRS employer opt out of the WRS?

- No. Current law prohibits participating employees from opting out of the WRS. Allowing WRS members to opt out of the WRS would be difficult to administer, would have a detrimental impact on the sustainability of the WRS, would increase contribution rates for employees and employers in the WRS, and employees who opt out would not be taking advantage of investment returns that end up paying more than 66% of the retirement benefit.

13)There has been a lot of media coverage about the funding of pension systems across the nation. Is the WRS fully funded and able to pay benefits?

- Yes. The WRS is fully funded and able to pay benefits to current and future WRS members.

14) There has also been a lot of media coverage about the benefit levels of the WRS and how those benefits compare to the benefits in the private sector and the retirement systems in other states. How do the benefit levels of the WRS compare?

- ETF does not track information about how public sector pension benefits compare to private sector benefits. For information about how WRS benefits compare to the benefits of other public sector retirement systems, please find below a link to the *2008 Comparative Study of Major Public Employee Retirement Systems* that was prepared by the Wisconsin Legislative Council. Pages 25-30 provide information about benefit calculations.

http://legis.wisconsin.gov/lc/publications/crs/2008_retirement.pdf

Health Insurance Questions

15) The bill requires the Secretary of the Department of Employee Trust Funds (ETF) to allocate from reserve accounts established for group health and pharmacy benefits an amount equal to $28 million to reduce employer costs for providing group health insurance for state employees for the period from July 1, 2011, to December 31, 2011. Will this provision impact WRS retirement benefits?

- No. The funds for the health insurance programs administered by ETF are in a different trust fund than the WRS. However, this provision in the bill may have an impact on future premium rates for the employers and members (including retirees) who participate in the State Group Health Insurance Program.
- Under current law, the Group Insurance Board is responsible for the management of the group health insurance and pharmacy benefit reserves to reduce premium costs. The reserves are derived from premium payments made by employers (the State and various participating authorities), employees, and retirees.

Question revised March 7, 2011

16) Can I cancel my health insurance coverage through the State of Wisconsin Group Health Insurance program if my premium share increases?

- *State and UW Employees:* Yes. If you have your employee premium share taken pre-tax, treasury regulations governing Internal Revenue Code Section 125 restrict mid-year changes to your coverage. However, a significant cost change is a circumstance that permits a coverage change. If the employee premium cost increases for health insurance coverage are enacted as proposed, the increase would be deemed to be significant. **You must submit your cancellation notice* within 30 days after the change in the employee premium share becomes effective.**

  If you have your employee contribution share taken post-tax, you can cancel your health insurance at any time by submitting a cancellation notice* to your employer. Your health insurance coverage will be cancelled the first of the month on or following your employer's receipt of your cancellation notice, or a later date if specified.
- *Local Employees & Local Annuitants Receiving Employer Contribution:* Check with your employer. If your contribution is deducted on a pre-tax basis, you may be limited to cancelling coverage at the end of the benefit year unless you have a change in status event.
- *State Annuitants, Local Annuitants Not Receiving Employer Contribution, & Continuants:* Yes, you can cancel your health insurance at any time by submitting a cancellation notice* to ETF. Your health insurance policy will be cancelled the first of the month on or following ETF's receipt of your cancellation notice, or a later date if specified.
- NOTE the following important considerations if you cancel your health insurance:
  - You may only re-enroll in the State of Wisconsin Group Health Insurance program without any restrictions within 30 days of losing

eligibility or employer contribution for other group health insurance coverage.

- You may enroll at any time under the Standard Plan but you and any insured family members older than age 19 will be subject to a 180-day waiting period for pre-existing conditions.
- If you plan to become covered under your spouse's or partner's health insurance plan, confirm with the plan that you can enroll if you cancel your health insurance coverage. The plan may not allow you an enrollment opportunity due to a voluntary cancellation of coverage, but may allow your spouse or partner and dependents to enroll without restriction.
- You must have coverage in force through the State of Wisconsin Group Health Insurance Program at the time of retirement or layoff to be able to use sick leave credits to pay for health insurance.
- You must have family coverage in force through the State of Wisconsin Group Health Insurance Program for your insured dependents to be able to continue coverage as a survivor and to be able to use your sick leave credits to pay for health insurance, should you die.

*You may submit enrollment changes electronically through the new myETF Benefits Online Health Insurance Enrollment System or on a paper *Health Insurance Application/Change Form* (ET-2301).

17) I have family coverage through the State of Wisconsin Group Health Insurance Program. Can I change to single coverage if my premium share increases?

- State and UW Employees: Yes. If you have your employee contribution share taken pre-tax, treasury regulations governing Internal Revenue Code Section 125 restrict mid-year changes to your coverage. However, a significant cost change is a circumstance that permits a coverage change. If the employee premium cost increases for health insurance coverage are enacted as proposed, the increase would be deemed to be significant. You must submit your election* to switch from family to single coverage within 30 days after the change in the employee premium share becomes effective.

  If you have your employee contribution share taken post-tax, you can change from family to single coverage at any time. The single coverage will be effective on the first of the month on or following your employer's receipt of your election* to change to single coverage.

- *Local Employees & Local Retirees Receiving Employer Contribution:* Check with your employer. If your contribution is deducted on a pre-tax basis, you may be limited to changing coverage at the end of the benefit year unless you have a change in status event.

- <u>*State Annuitants, Local Annuitants Not Receiving Employer Contribution, & Continuants:*</u> Yes, you can change from family to single coverage at any time by submitting an application* to ETF. The single coverage will be effective the first of the month on or following ETF's receipt of your application.

  Dependents losing coverage are eligible to continue under this program through COBRA provisions and may have an opportunity to enroll in other group health insurance coverage, if eligible, without restriction.

- <u>NOTE that you can only change back to family coverage at the following times:</u>
    - During the annual It's Your Choice enrollment period for coverage effective January 1.
    - By submitting an application* within 30 days of a marriage, domestic partnership, or a dependent's loss of eligibility or employer contribution for other health insurance coverage.
    - By submitting an application* within 60 days of a birth, adoption or when legal guardianship is granted.

  *You may submit enrollment changes electronically through the new myETF Benefits Online Health Insurance Enrollment System or on a paper *Health Insurance Application/Change Form* (ET-2301).

18) I have family coverage through the State of Wisconsin Group Health Insurance Program and only one of my insured dependents is a non-tax dependent. I need to keep my family coverage, but can I drop my non-tax dependent so that I no longer have to pay imputed taxes?

- You may only drop your non-tax dependent at the following times:

  a. Within 30 days of your dependent enrolling in other health insurance coverage.

  b. Your dependent loses eligibility, for example, turns 27 years old.

  c. During the annual It's Your Choice enrollment period and your dependent's coverage will terminate the following January 1.

19) I have family coverage through the State of Wisconsin Group Health Insurance Program and my only dependent covered under the family policy is a non-tax dependent. Can I drop my non-tax dependent and switch to single coverage.

- Yes. Because the value of the health insurance coverage attributable to the non-tax dependent is taxed as imputed income, Section 125 rules governing pre-tax elections do not apply. The single coverage will be effective on the first of the month on or following your employer's receipt of your election* to change to single coverage.

*You may submit enrollment changes electronically through the new myETF Benefits Online Health Insurance Enrollment System or on a paper *Health Insurance Application/Change Form* (ET-2301).

Question added March 7, 2011

20) I have family coverage and just cover my spouse/partner, who also works for the State of Wisconsin. Can we switch from one family to two single policies if my premium share increases?

- Yes. However, if you have your employee contribution share taken pre-tax, you must submit your election* to switch from family to single coverage within 30 days after the change in the employee premium share becomes effective. That is because treasury regulations governing Internal Revenue Code Section 125 restrict mid-year changes to your coverage. However, a significant cost change is a circumstance that permits a coverage change. If the employee premium cost increases for health insurance coverage are enacted as proposed, the increase would be deemed to be significant.

*You may submit enrollment changes electronically through the new myETF Benefits Online Health Insurance Enrollment System or on a paper *Health Insurance Application/Change Form* (ET-2301).

21) Can I switch from one health plan to another if my employee contribution increases?

- No, an increase in your contribution for health insurance does not create an opportunity for you to switch health plans in the middle of a year. (See the "CHANGING HEALTH PLANS" section of the Frequently Asked Questions in the It's Your Choice: Reference Guide for situations that allow you to switch health plans in the middle of the year.)

22) For local employers that participate in ETF's Public Employer Group Health Insurance Program, the Budget Repair Bill states the employer cannot pay more than 88 percent of the average premium cost of plans offered in the lowest cost tier of ETF's program. What does that mean?

- Based on the Budget Repair Bill proposed language, this change will not be effective until January 1, 2012, except as otherwise provided in a collective bargaining agreement. ETF will provide local employers with more guidance regarding the "average premium cost" language in the bill prior to the It's Your Choice enrollment period later this year. Currently, ETF provides premium rate tables by county so that local employers can implement the 105% cap on employer contributions. Our intent is to follow this model in implementing the 88% cap, if it becomes law.

23) The Budget Repair Bill requires the Group Insurance Board to design health care coverage plans for the 2012 calendar year that, after adjusting for any inflationary increase in health benefit costs, reduces the average premium cost of plans offered in Tier 1 by at least 5 percent compared to 2011. How does the Board intend to reduce the premiums by 5 percent?

- As of this writing, the Board has not met to discuss this provision in the bill.
- To follow the Board meetings and the materials for the Board meetings, go to: http://www.etf.wi.gov/boards/board_gib.htm
- For information about the process that has been used in the past by ETF and the Board to implement legislative changes to the health program and to make modifications to health insurance coverage, go to: http://etf.wi.gov/boards/agenda_items_2011/gib20110208_items/Item_4B.pdf.
- The link above also provides information about the changes to 2012 coverage that were discussed by the Board prior to the introduction of the bill.

Questions about Employee Reimbursement Accounts (state employees only)

Question added March 7, 2011

24) Can I make changes to my employee reimbursement account (ERA) elections?

- No. An increase in employee insurance premiums is not an event for which federal regulations allow you to make a mid-year change. For information about valid change in status events that allow you to make a mid-year change to your election, see pages 24-27 of the ERA benefits booklet. Here is the link to the booklet: http://etf.wi.gov/publications/era_2011_booklet.pdf

Questions about Sick Leave Credits (state employees only)

25) What is the status of the Accumulated Sick Leave Conversion Credit Program (ASLCC) and the Supplemental Health Insurance Conversion Credit Program (SHICC)?

- If you are a **state** employee who has questions about the Accumulated Sick Leave Conversion Credit Program (ASLCC) and the Supplemental Health Insurance Conversion Credit Program (SHICC), please read the information below before contacting ETF.
    - Although ETF administers the ASLCC and SHICC programs, ETF does not play a role in determining the amount of sick leave that employees receive, or whether and how much of it may be accrued. Those matters are defined in state law, the compensation plan for non-represented state employees and the labor agreements for represented state employees.
    - Section 9143 of the Budget Repair Bill states that "upon termination of any collective bargaining agreement between the state and a labor organization representing employees in a collective bargaining unit under section 111.825 (1) or (2) of the statutes, as affected by this act, the director of the Office of State Employment Relations (OSER) may continue to administer those provisions of the collective bargaining agreements that the director determines necessary for the orderly administration of the state civil services system until the compensation plan under section 230.12 of the statutes is established for the 2011−13 fiscal biennium.
    - OSER issued the following statement on February 16, 2011:

- The two most frequently asked questions from employees concerned about the impact of the Budget Repair Bill on their benefits relate to continuation of their eligibility for Supplemental Health Insurance Conversion Credits (SHICC) and professional development time (PDT).
- Assuming that the Budget Repair Bill passes as initially proposed, eligibility for SHICC and PDT will continue for at least the remainder of the 2009-2011 biennium under the OSER director's discretion to continue certain provisions of the former collective bargaining agreements. Thereafter, all provisions for represented employees, other than base pay rates which continue to be negotiable, will be governed by the Compensation Plan (which will then apply to represented and non-represented employees) covering represented employees, applicable statutes, or administrative code.

  Note: The last day of the 2009-2011 biennium is June 30, 2011.

    - In addition, section 9143 of the bill requires ETF, OSER and the Department of Administration to study the program and submit the findings to the Governor by June 30, 2012.

Additional Information

26) Where can I get additional information about the bill?

- For the bill language and the analysis on the bill, visit:

  http://legis.wisconsin.gov/JR1SB-11.pdf
  http://www.thewheelerreport.com/releases/February11/0214/0214lfb.pdf

- To stay abreast on changes to the bill and supporting documents about the bill, visit the www.thewheelerreport.com.
- If you are a state employee and have questions related to collective bargaining, compensation and the payment of fringe benefits, visit http://oser.state.wi.us/docview.asp?docid=7209.